

How People Really Behave

Behavioral economists explain what's seemingly irrational

Based on Economic Theory researched by Mathew Rabin of U. C. Berkeley

Conventional Wisdom

Actual Behavior

People focus on overall assets

People compartmentalize their finances
Households with large savings often
run up high-interest credit card debt.

Stocks should outperform bonds

People go to great lengths to avoid losing
money. Since stocks are riskier than bonds,
investors demand much higher returns from
stocks to compensate for the dread of losses.

People act on the basis of pure self-
interest.

People match their behavior to that of those
around them. This explains why people make
sacrifices voluntarily – and why those who feel
mistreated may retaliate, even if the personal
cost is great.

In daily life, people focus on the
long term.

Procrastination on important matters is
rampant. That's why many people leave large
sums in low-interest checking accounts and put
off saving for retirement.

How Should You Respond?

1. Show consumers the benefit of a holistic financial planning approach to family finances with a well-trained relationship banking approach and segmented product prequalification system, using appropriate demographic studies.

2. Illustrate the benefits of including all investment options to your customers. For example, real estate, insurance products or stocks and bonds in a diversified financial investment plan for retirement.

3. Give your clients an example. Tell them about customer "success stories", and show them how your financial institutions relationship approach to the customer's or member's broad range of needs achieves their dreams. Use the holistic relationship service model to anticipate and head off customer problems by analyzing the effect of new pricing or service changes and offering solutions with the change.

4. Use customer profiling and customer information systems to identify procrastination behaviors that could be changed for the customers benefit. Use easily customizable internet banking and video-merchandising programs to target the calls to action to specific consumers and consumer groups.